



CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

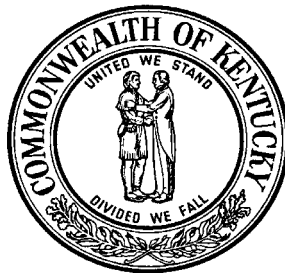
REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AGREED UPON PROCEDURES ENGAGEMENT

WEST KENTUCKY CORPORATION

Due to file size constraints, this publication may not be posted on the web in its entirety. The body of the report follows. To view the appendices, click on the desired appendix in the table of contents. Please note that appendices have been grouped together, e.g., A-E, F-G, H-I, J-L, M-O, P-S to facilitate downloading and printing. If you have any questions or problems, please contact Gregory Giesler, Open Records Administrator, at [gregory.giesler@auditor.ky.gov](mailto:gregory.giesler@auditor.ky.gov).



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS**  
**AGREED-UPON PROCEDURES ENGAGEMENT**  
**WEST KENTUCKY CORPORATION**



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**EXECUTIVE SUMMARY**  
**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS**  
**AGREED-UPON PROCEDURES ENGAGEMENT**  
**WEST KENTUCKY CORPORATION**

**December 1, 2004**

The Chairman of the West Kentucky Corporation (WKC) board requested that the Auditor of Public Accounts (APA) follow up on two specific comments in a report issued by the Finance and Administration Cabinet (FAC) pertaining to the WKC. The Commissioner of the Governor's Office for Local Development requested that FAC perform this review.

The APA entered into an "agreed-upon procedures" engagement with WKC board to:

- 1) Determine if public funds received by West Kentucky Corporation were used for the private purchase of the 1997 Ford Explorer.
- 2) Determine if Federal funds received from the John Hunt Morgan Memorandum of Agreement (MOA) were used as envisioned and in accordance with the MOA.

This engagement required additional interviews and review of documents, which were not included in the FAC report. Based on this additional information, the APA report differs from the FAC findings.

The APA did not find evidence that the transaction involving the trade-in of the 1997 Ford Explorer increased the cost the new vehicle for West Kentucky Corporation. The APA however has referred this matter to the Ethics Commission for review, in light of the findings that the president's stepson had knowledge that the 1997 Ford Explorer had been traded in, location of the dealer, and condition of the vehicle and the purchase of the vehicle by the president's stepson was never disclosed to the Board.

The APA did not find that WKC had inappropriately spent federal funds for the development of a website. The APA documented contract procedures utilized by the Kentucky Heartland Civil War Trails Commission and WKC were vague and poorly written.

Further, the APA determined that the Kentucky Transportation Cabinet (KTC) had delegated monitoring and oversight of the federal funds to GOLD without knowledge and agreement from GOLD, thereby not fulfilling federal monitoring requirements.

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**CRIT LUALLLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Mr. Bob Hunt, Chairman  
West Kentucky Corporation

Independent Accountants Report

We have performed the procedures enumerated below, which were agreed to by the West Kentucky Corporation, solely to assist you with respect to the accounting records of the West Kentucky Corporation to determine if public funds received by West Kentucky Corporation were used for the private purchase of the 1997 Ford Explorer. In addition, we have examined the use of federal funds for the development of a John Hunt Morgan in Kentucky Trails System website for the Kentucky Heartland Civil War Trails Commission. West Kentucky Corporation's management is responsible for the company's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our agreed upon procedures are as follows:

- 1) Determine if public funds received by West Kentucky Corporation were used for the private purchase of the 1997 Ford Explorer.
- 2) Determine if Federal funds received from the John Hunt Morgan Memorandum of Agreement (MOA) were used as envisioned and in accordance with the MOA.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting record. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of West Kentucky Corporation, is not intended to be, and should not be used by anyone other than those specified parties.

Respectfully submitted,

Crit Luallen.  
Auditor of Public Accounts

Engagement fieldwork completed -  
December 1, 2004



Mr. Bob Hunt, Chairman  
West Kentucky Corporation

- 1) Determine if public funds received by West Kentucky Corporation were used to for the private purchase of the 1997 Ford Explorer.
- 

The Finance and Administration Cabinet released a report entitled “Review of East and West Kentucky Corporations.” The report stated:

“During our review of WKC expenditure data, we discovered potential irregularities in the disposition of the 1997 WKC Ford Explorer. County and dealership records show that the president’s stepson repurchased the vehicle the same day it was traded by the president to a local dealership for a 2002 Ford Explorer for the corporation. The records also show that the president also shared title with his stepson. It appears the president and his stepson stood to possibly benefit at the Commonwealth’s expense from \$5,375 to \$9,225, depending on the wholesale, trade-in, or retail vehicle of the vehicle at the time.”

The Finance and Administration Cabinet did not make a conclusion about whether the finding was true, but recommended further review. Mr. Bob Hunt, Chairman of the West Kentucky Corporation requested that we review this finding.

The Auditor’s office conducted 14 interviews and obtained supporting documentation in relation to the finding above. This supporting documentation is included as appendices to this report. There are two major issues:

- Was the purchase of the new 2002 Ford Explorer conducted in a fair and equitable manner with regard to the trade-in value of the 1997 Ford Explorer?
- Did the president of West Kentucky Corporation knowingly use his official position to obtain financial gain for himself or any members of his family (Kentucky Revised Statute 11A.020)?

The president submitted a memorandum and a list of area Ford Dealers to the APA. The memorandum requested price quotes for a new 2002 Ford Explorer with a XLT package with a trade-in of a 1997 Ford Explorer with approximately 125,000 miles. The president could not provide us with copies of all of the price quotes he obtained. The only dealer to have a copy of the price quote was the one that made the sale. The other dealers we contacted explained that they did not retain price quotes, since they did not make the sale and the offer was almost three and a half years ago old.

We contacted the independent certified public accountant (CPA) that conducted the 2001 and 2002 audits of West Kentucky Corporation and asked if he had audited the purchase of the 2002 Ford Explorer and trade-in of the 1997 Ford Explorer. The CPA explained that he had audited the transaction and submitted a written statement.

“Additionally, during the 6/30/2002 audit, we did examine several pieces of correspondence from auto dealers furnishing information concerning prices and trade-in values of the 1997 Explorer. As I told you by phone, nothing came to our attention that would cause us auditors to question the validity of the transaction. In other words, nothing about the transaction had any hint of any impropriety.”

The independent certified public accountant reviewed price quotes and trade-in values from various dealers. He did not limit his review to just the trade-in value of the 1997 Ford Explorer, but to the entire transaction. The president stated that he did acquire price quotes from various dealers, although he could not provide documentation.

Mr. Bob Hunt, Chairman  
West Kentucky Corporation

1) Determine if public funds received by West Kentucky Corporation were used for the private purchase of the 1997 Ford Explorer. (Continued)

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The president took delivery of the 2002 Ford Explorer, Friday, May 18, 2001 and left the 1997 Ford Explorer at the dealership. The general manager of the dealership provided us with a computer printout of a governmental price concession from Ford Motor Company dated the same day and the time stamped at 1:23 pm.

The president and general manager of the dealership signed the sales invoice Friday May 18, 2001 even though the invoice was dated Monday, May 21, 2002. The dealer's invoice listed the window sticker price at \$33,465 and an invoice price of \$30,626. The general manager rounded the dealer's invoice price up to \$30,700 to determine sales price. The sales invoice listed the retail cost of the 2002 Ford Explorer at \$30,700, less a \$1,500 state price concession, less a \$5,000 for the trade-in value of the 1997 Ford Explorer for a total sales price of \$24,200. The 2002 Ford Explorer had a manufacturer retail price of \$33,465 and the vehicle was reduced to 29,200 (excluding the trade-in) reflecting a discount of \$4,265. We conducted several interviews with the general manager of dealership that sold the 2002 Ford Explorer to West Kentucky Corporation. A check dated July 12, 2002, for \$24,200 was issued to the dealership from West Kentucky Corporation.

The general manager explained that the trade-in value of the 1997 Ford Explorer was determined based on a five-year-old unit that had 125,731 miles on it and that the dealership valued it at \$5,000 on trade per the used car market guide. The dealer stated that he intended to sell the vehicle at auction and he would not have used the NADA guide.

The general manager could not explain why the sales invoice to purchase the 2002 Ford Explorer dated Monday, May 21, 2002 when the president took delivery of the new vehicle Friday, May 18, 2002. The dealership was open Saturday and closed Sunday. He explained that anyone could have purchased the 1997 Ford Explorer Saturday or Monday before the president's stepson arrived. The president's stepson made the deal and signed the sales invoice for \$5,320 to purchase the 1997 Ford Explorer on Monday, May 21, 2002.

The general manager stated, "if your son came into the dealership and asked the purchase price of a vehicle that you had just traded in, I would have sold it to him for trade-in value. I have always had this policy. It is only fair."

We asked the following questions to the general manager:

- Did Mr. Zea ever make any vehicle purchases from his dealership in the last 10 years? No, but his wife wanted a Jeep and we got that for her.
- Did you ever take any trips with Mr. Zea for any economic development activities? No.
- Has the dealership ever received any financial assistance or benefits from West Kentucky Corporation? No.
- Did Mr. Zea ask you to hold the 1997 Ford Explorer so that his stepson could purchase it? No.

The president's wife and her son knew that the president had traded the 1997 Ford Explorer. He drove the 2002 Ford Explorer home on Friday May 18, 2001.

The president left Monday morning, May 21, 2001 to be in Mayfield. He attended an announcement of high-speed Internet access at 8:00 am. Later that afternoon, he stated that he went to a Purchase Area Development District meeting.



Mr. Bob Hunt, Chairman  
West Kentucky Corporation

1) Determine if public funds received by West Kentucky Corporation were used for the private purchase of the 1997 Ford Explorer. (Continued)

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The president's wife explained that her son had wrecked his truck and was driving his grandfather's truck at the time. When he was not driving his grandfather's truck, she was taking him to classes and other places. They went shopping for vehicles on Sunday and saw the 1997 Ford Explorer at the dealership.

- We asked her if she knew the \$5,000 trade-in value allowed by the dealership for the 1997 Ford Explorer. She explained that she did not know the trade in value until much later.
- Did your husband know that his stepson was going to purchase the vehicle Sunday May 20, 2001? She stated her husband did not know; because we did not know the price of the vehicle or if my son had the means to purchase the vehicle.

The president's wife and her son went to the dealership, Monday afternoon to see if the price of the 1997 Ford Explorer was within Mr. O'Donnell's means. The price was acceptable, but Mr. O'Donnell did not have the funds to purchase the vehicle. He asked his mother to go to the bank with him, which was across the street, since he had never borrowed money before. They went to the bank across the street and her son qualified for a \$1,000 loan. The bank issued a check to the president's son for \$1,000. The check was dated May 21, 2001. They went back to the dealership to finalize the paper work. The general manager of the dealership prepared the sales invoice, dated Monday, May 21, 2001. The president's stepson signed the sales invoice, which totaled \$5,320.

The next day, May 22, 2001, the president's stepson brought \$4,000 of cash to the dealership to purchase the 1997 Ford Explorer. The general manager would not take cash and he had the president's stepson obtain a cashier check from another bank. This check dated May 22, 2001 and the payee was Parker Ford. The vehicle was sent for cleaning and the president's stepson took delivery May 23, 2001. Later the president's stepson paid the remaining balance with a money order. To pay for the vehicle, the president's stepson explained that he borrowed \$1,000 from the bank, received \$800 from the truck he totaled, \$750 from the wheels he sold, \$50 from a toolbox he sold, and the rest of the money he saved from his job at Murray State University. West Kentucky Corporation did not pay any funds towards the purchase of this vehicle.

The president's stepson signed the odometer disclosure statement, dated May 22, 2001. The general manager explained that the president's name was entered on the application for title and odometer disclosure statement for insurance purposes. The president's wife probably gave approval for the president's name to be typed on these documents on Monday. The president did not sign any of the documents concerning the purchase of the 1997 Ford Explorer.

The president's stepson paid \$5,320 for a 1997 Ford Explorer with 125,731 miles. The transfer case was subsequently repaired April 22, 2002 for \$913. The president's stepson traded the 1997 Ford Explorer in as part of a deal to purchase a 2000 Jeep Wrangler to a different dealer. The Jeep Wrangler, purchased May 3, 2004 and the trade-in value allowed by used car dealer for the 1997 Ford Explorer was \$3,495. The president's stepson did not sell the 1997 Ford Explorer to a private buyer for \$4,200 as reflected in the Finance and Administration Cabinet report.

Mr. Bob Hunt, Chairman  
West Kentucky Corporation

1) Determine if public funds received by West Kentucky Corporation were used for the private purchase of the 1997 Ford Explorer. (Continued)

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Was the purchase of the new 2002 Ford Explorer conducted in a fair and equitable manner? Since the transaction was over three and a half years ago, it is impossible to independently determine the condition of the trade-in at that time, such as the transmission, transfer case, engine, paint, ect. There were not any major repairs paid by West Kentucky Corporation to the 1997 Ford Explorer before it was traded. The CPA stated that he examined several pieces of correspondence from auto dealers furnishing information concerning prices and trade-in values of the 1997 Explorer. He also explained that there was nothing about the transaction had any hint of any impropriety. The general manager of the dealership stated that they used the used car guide to determine the value. Based on the interviews with the president, the stepson, the president's wife, the dealer, private CPA firm, we found no evidence that the president entered into a transaction on behalf of West Kentucky Corporation to benefit his stepson. The president has advised us that the corporation has always traded in vehicles. We cannot conclude whether West Kentucky Corporation could have obtained a higher value for the vehicle if it had been sold to the public.

Did the president of West Kentucky Corporation *knowingly use his official position* to obtain *financial gain* for himself or any members of his family (Kentucky Revised Statute 11A.020)?

The general manager of the dealership stated that the president did not ask him to hold the 1997 Ford Explorer, so that his stepson could purchase it. Anyone could have purchased the vehicle Saturday or Monday morning before the president's stepson arrived. The president was out of town Monday and he stated that he did not know his stepson was going to purchase the vehicle. The president's wife and her son did not know that he was going to purchase the vehicle until the bank approved a loan Monday afternoon. The general manager of the dealership explained if a family member traded in a vehicle that he would have sold it to another family member at the trade in value. This was his policy.

The president stated that he received approval from the Board to purchase a new vehicle and Board minutes reflect this action. The board minutes stated June 27, 2001, "The only large expenses needed will be to replace the 1995 Ford Explorer in the Murray office." The president explained that 1995 should have been 1997. He stated, "We have never owned a 1995 vehicle of any sort. The board approved the purchase after the fact because we had quarterly meeting." The president did not subsequently notify the Board that his stepson had purchased the 1997 Ford Explorer.

West Kentucky Corporation has not adopted a Code of Ethics for its board members, as suggested by the Executive Branch Ethics Commission in a letter dated July 7, 2004. The Executive Branch Ethics Commission has recognized the employees of West Kentucky Corporation as being subject to the Code. The Auditor of Public Accounts is forwarding this report to them for their review, in light of the findings that the president's stepson had knowledge that the 1997 Ford Explorer had been traded in, location of the dealer, and condition of the vehicle and the purchase of the vehicle by the president's stepson was never disclosed to the Board.

We recommend that West Kentucky Corporation adopt a Code of Ethics for it board members. We also recommend that in addition to obtaining price quotes, surplus vehicles be advertised for sale to the public to determine the highest value.

Mr. Bob Hunt, Chairman  
West Kentucky Corporation

- 2) Determine if Federal Funds received from the John Hunt Morgan Memorandum Of Agreement (MOA) were used as envisioned and in accordance with the MOA.
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The FAC report dated October 6, 2004 stated that WKC potentially overcharged the city of Campbellsville for setting up a web page and advertising related to the John Hunt Morgan trail. The Kentucky Transportation Cabinet (KTC) has an "Enhancement Contract" with the city of Campbellsville for the Morgan in Kentucky Heritage trail in the amount of \$171,360. The city of Campbellsville then used a portion of the contract to pay WKC a fixed fee of \$20,000 for its work developing a John Hunt Morgan Civil War website and advertising the John Hunt Morgan civil war trails. FAC's report stated that only \$2,219.71 was expended on the project. However, we found that at least \$10,900.73 has been spent on this endeavor to date, primarily in personnel costs. Personnel costs were not included in the original FAC report. Personnel costs are a key component of this contract which includes a great deal of web design work.

The FAC report also stated that the remaining balance is no longer available for use on this project without special approval by the board. However, we found that the funds were deposited into WKC's operating account and were not deposited and retained in a separate account. Both the president and the current Chairman agreed the funds received were being expended for agency operations, which included such related personnel costs. There is technically no "remaining balance." As stated earlier, WKC contracted with Kentucky Heartland Civil War Trails Commission for a fixed fee of \$20,000 to develop and host a John Hunt Morgan Civil War website. This contract was not a cost reimbursement contract that is the norm for federal contracts. This agreement failed to set a delivery date or detail the payment method. The terms of this agreement have been fulfilled and WKC continues to maintain the John Hunt Morgan Civil War website. In addition, the two invoices submitted to City of Campbellsville for payment were vague. When using Federal dollars, invoices should be detailed and self explanatory. However, it appears that WKC was never instructed to submit detailed invoices. WKC simply received money in a vendor type capacity to perform certain activities. In the future, WKC should document all expenditures and have detailed records to support all expenditures made in relation to contracts. For example, under the current contract, WKC must provide technical support indefinitely since the agreement has no expiration date.

In performing our work for this engagement, we found that the contract language in the KTC enhancement contract with the city of Campbellsville, page 9, section 24 reads "[t]he results of the Department of Local Government's audit review should be submitted to the Cabinet within 30 days after completion of the audit review for each year containing project information." We subsequently obtained the audits for the City of Campbellsville from the Governors Office for Local Development (GOLD) formerly known as the Department for Local Government, for fiscal year 2001 and have been advised by GOLD representatives that they have requested subsequent audits for the succeeding years ending June 30, 2002 and 2003. We originally received the audit from the City of Campbellsville's CPA firm after GOLD initially was unable to provide the audit.

Mr. Bob Hunt, Chairman  
West Kentucky Corporation

2) Determine if Federal Funds received from the John Hunt Morgan Memorandum Of Agreement (MOA) were used as envisioned and in accordance with the MOA. (Continued)

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Auditor met with GOLD on November 24, 2004 to discuss language referring to the Department of Local Government in the enhancement contract between KTC and the City of Campbellsville. GOLD was unaware that this language was being included in these KTC contracts. There were no signatures for representatives from GOLD (formally DLG) on this particular contract. Therefore, KTC was relying on GOLD to perform reviews on audits GOLD was not aware of, nor did GOLD have any knowledge of any reciprocal agreement to provide such services on behalf of KTC. KTC is ultimately responsible for ensuring that subrecipients expending over \$300,000 in federal funds obtain an OMB A-133 audit. We will follow up on this issue in the KTC FY04 audit, currently underway. It appears that KTC has failed to monitor this grant.

Since the contract between WKC and Kentucky Heartland Civil War Trails Commission was a fixed fee contract, WKC was not required to document actual expenditures and retain the federal funds in a separate account. .

The Kentucky Heartland Civil War Trails Commission should review contract procedures to avoid broad open-ended vague contracts and the KTC should review all agreements to determine if they have delegated monitoring to GOLD in other instances without concurrence of GOLD.

